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SUBJECT: VALCO REBORN: ALCOA SIGNS MOU WITH GHANA GOVERNMENT

REF: 03 ACCRA 02527

1. (SBU) On January 26, Alcoa signed an MOU with the GOG giving it the exclusive right to assess the feasibility of creating an integrated aluminum industry in Ghana which could pave the way for a USD 600 million investment. If both parties agree on the economic feasibility of the project after 90 days, Alcoa will spend the following 12 months in the field, assessing a plan that includes the construction of two bauxite mines, a railroad, a refinery, and significant upgrades to the VALCO smelter (reftel). Alcoa Director Randy Phillips told EconOff the deal also calls for the partial restart of the Volta River Aluminum Company (VALCO) smelter, which could be in operation as soon as May, 2005. Alcoa, which already owns 10 percent of VALCO, will provide management, raw alumina, and possibly a shareholder loan to the GoG to cover operating costs until the end of the assessment period. If the feasibility study goes well the final investment will exceed USD 1 billion, with ownership split 60-40 between Alcoa and the GOG, respectively.

2. (SBU) Comment: Alcoa adopted the strategy of gradual commitment after studying the difficult experiences of other investors, including VALCO's previous owner, Kaiser Aluminum. The idea of an integrated aluminum industry is widely considered a legacy of Ghana's late President and Founding Father, Kwame Nkrumah. Former VALCO director Dr. Charles Mensah, who helped broker the MOU, has told EconOff on several occasions that President Kufuor intends to fulfill Nkrumah's dream before he leaves office at the end of his second term in 2008. Alcoa's graduated approach should enable a smooth separation if the realities of the balance sheet fall short of the vision of the President. End Comment.  
YATES